

Message Text

PAGE 01 STATE 050189

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LIMDIS

E. O. 11652: XGDS

TAGS: EFIN, GW

SUBJECT: CONVERSATION BETWEEN CHANCELLOR BRANDT AND
SECRETARY OF THE TREASURY SHULTZ

FOLLOWING SENT ACTION SECSTATE INFO LONDON PARIS MARCH 16,
FROM BONN REPEATED TO YOU QUOTE:

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LIMDIS

E. O. 11652: XGDS

TAGS: EFIN, GW

SUBJECT: CONVERSATION BETWEEN CHANCELLOR BRANDT AND
SECRETARY OF THE TREASURY SHULTZ

LONDON PASS TO SECRETARY SHULTZ

DEPARTMENT PLEASE PASS TREASURY

1. SECRETARY OF THE TREASURY SHULTZ CALLED ON THE
CHANCELLOR IN HIS OFFICE AT THE PALIS SCHAUMBURG ON
SECRET

SECRET

PAGE 02 STATE 050189

MARCH 15. ALSO PRESENT ON THE AMERICAN SIDE WERE
AMBASSADOR HILLENBRAND AND HELMUT SONNENFELDT, AND

ON THE GERMAN SIDE STATE SECRETARY POEHL, OF THE MINISTRY OF FINANCE, AND DR. SANNE, ASSISTANT SECRETARY IN THE CHANCELLERY.

2. AFTER NOTING THAT HE HAD HAD GOOD TALKS EARLIER IN THE DAY WITH MINISTER OF FINANCE SCHMIDT AND AT LUNCH WITH MINISTER OF ECONOMICS FRIDERICH, SECRETARY SHULTZ SAID THAT THE PRESIDENT FELT THAT OUR APPROACH TO SOLUTIONS OF PARTICULAR PROBLEMS SUCH AS THE MONETARY ONE MUST BE FOUND WITHIN THE GENERAL SETTING OF RELATIONS BETWEEN THE COUNTRIES. THE CHANCELLOR OBSERVED THAT EARLIER IN THE DAY HE HAD MADE A STATEMENT IN THE BUNDESTAG ABOUT THE MONETARY SITUATION IN WHICH HE HAD EMPHASIZED THE NECESSITY OF KEEPING THE EUROPEANS WORKING TOGETHER AND AT THE SAME TIME AVOIDING ANY INCREASE OF DIFFICULTIES IN U. S. RELATIONS WITH THE FEDERAL REPUBLIC AND WITH EUROPE. THE CHANCELLOR ADDED THAT THE SOLUTION WHICH HAD BEEN FOUND DID NOT CONSTITUTE A SETBACK IN TERMS OF THESE TWO CRITERIA, ALTHOUGH IT DID NOT ON THE OTHER HAND REPRESENT PROGRESS TOWARD EUROPEAN MONETARY UNION. IT HAD BEEN ESSENTIAL THAT THE GERMANS KEEP TOGETHER WITH FRANCE IN THEIR APPROACH; OTHERWISE, THERE WOULD HAVE BEEN A MAJOR DETERIORATION IN THE SITUATION.

3. SECRETARY SHULTZ SAID IT MIGHT BE OF INTEREST TO THE CHANCELLOR FOR HIM TO EXPLAIN OUR GENERAL OUTLOOK ON MONETARY AND TRADE MATTERS IN THE LIGHT OF THE UNFOLDING CURRENT INTERNATIONAL ECONOMIC SITUATION. THE U. S. SEES ITSELF INVOLVED IN A SYSTEM CONSTRUCTED AFTER WORLD WAR II WHICH WORKED WELL. IT WAS BASED ON THE ASSUMPTION THAT THE U. S. WAS THE COMPLETELY DOMINANT ECONOMY WHICH COULD HOLD FIXED DOLLAR RATES AND COULD DISPENSE AID AND MILITARY EXPENDITURES ABROAD ON A LARGE SCALE. THAT SYSTEM PROVED TO BE UNSUITABLE FOR A LATER PERIOD WHEN MANY WESTERN COUNTRIES, FOR EXAMPLE, GERMANY WERE ALSO ECONOMICALLY POWERFUL. HUGE DEFICITS IN THE U. S. BALANCE OF PAYMENTS HAD OCCURRED AND HAD DRAINED OUR GOLD RESERVES. THE WEEK BEFORE AUGUST 15, SECRET

SECRET

PAGE 03 STATE 050189

1971, A RUSH ON THOSE RESERVES FORCED THE CLOSING OF OUR GOLD WINDOW BRINGING THE END OF CONVERTIBILITY. AFTER A PERIOD OF TURNOIL AND SEARCHING AROUND, THE SMITHSONIAN AGREEMENT TEMPORARILY PROVIDED AN ARRANGEMENT, AND THE MOST RECENT DEVALUATION SEEMED TO HAVE ACHIEVED A POINT FROM WHICH WE COULD LOOK TO THE FUTURE. MORE IMPORTANT THAN THE SETTLEMENT OF THE MOMENT IS THE RECONSTRUCTION OF THE SYSTEM, SECRETARY SHULTZ CONTINUED. UNTIL THIS IS ACHIEVED IT WOULD BE UNWISE FOR US TO RETURN TO THE OLD TYPE OF INTERVENTION IN THE EXCHANGE MARKETS.

4. IN THIS CONTEXT, IT IS ALSO NECESSARY TO THINK OF THE RELATIONSHIP TO TRADE AND SECURITY PROBLEMS. OUR OBJECTIVE IS TO DEVELOP AN INTERNATIONAL SYSTEM WHICH RELATES ALL OF OUR OBJECTIVES IN THESE AREAS AND A SYSTEM THAT WILL WORK WELL WITHOUT THE NEED FOR CONSTANT INTERVENTION. IT WAS AGAINST THIS BACKGROUND AND NOT SOLELY AS A SPUR OF THE MOMENT DECISION THAT WE HAD CONCLUDED WE COULD NOT ENGAGE IN AMASSIVE INTERVENTION ON THE EXCHANGE MARKETS DURING THE RECENT PERIOD.

5. AFTER THANKING SECRETARY SHULTZ FOR THIS HELPFUL EXPOSITION, THE CHANCELLOR OBSERVED THAT THE FEDERAL REPUBLIC ALSO TRIED TO THINK IN TERMS OF THE RELATION BETWEEN THESE VARIOUS MATTERS, ALTHOUGH THERE WAS NO SINGLE PLACE WHERE THIS RELATIONSHIP COULD BE DISCUSSED. IT WAS FOR THIS REASON THAT HE HAD BEEN SUCH A STRONG PROPONENT OF AN INSTITUTIONALIZED FORUM FOR DIALOGUE BETWEEN THE U. S. AND THE EUROPEAN COMMUNITY. NOW HE FELT MORE RELUCTANT ON THIS QUESTION, PARTICULARLY AFTER HIS RECENT TALKS WITH BRITISH PRIME MINISTER HEATH.

6. IN RESPONSE TO THE CHANCELLOR'S QUERY, SECRETARY SHULTZ SAID THAT, IN THE MEETING IN PARIS TOMORROW, WE WOULD PUT FORWARD OUR THOUGHTS AS TO THE BEST MONETARY FRAMEWORK FOR THE TIME BEING COMPATIBLE WITH A LONG- RANGE SOLUTION, BUT HE DID NOT EXPECT TRADE QUESTIONS TO BE DISCUSSED AMONG THE FINANCE MINISTERS. IT HAD BEEN A PURPOSE OF HIS TRIP TO OBTAIN REACTIONS TO OUR FORTHCOMING
SECRET

SECRET

PAGE 04 STATE 050189

TRADE LEGISLATION, THE SPECIFICS OF WHICH HAD BEEN GIVEN IN SOME DETAIL TO REPRESENTATIVES OF THE MINISTRIES OF FINANCE AND ECONOMICS EARLIER IN THE DAY. THE CHANCELLOR ASKED WHETHER THERE WOULD BE ANY SURPRISES. SECRETARY SHULTZ RESPONDED THAT THE SPIRIT OF OUR PROPOSALS IS THAT OF A LIBERAL APPROACH TO WORLD TRADE, BUT IF WE ARE TO GET INTO NEGOTIATIONS WE SHOULD HAVE THE AUTHORITY TO RAISE OR LOWER TARIFFS AS PART OF THESE NEGOTIATIONS. THERE WOULD HAVE TO BE PROVISIONS FOR A SELECTIVE SURCHARGE FOR BALANCE OF PAYMENTS REASONS OR TO SAFEGUARD PARTICULAR INDUSTRIES FROM INJURY. SOME MIGHT FIND THIS CONCEPT FRIGHTENING, BUT WE HAD HAD SOME INDUSTRIES WIPED OUT IN RECENT YEARS, AND WE SHOULD BE ABLE TO SLOW UP THE PROCESS SO THAT INDUSTRIES COULD BECOME COMPETITIVE OR UNTIL ORDERLY OUTWARD MOVEMENTS OF WORKERS COULD TAKE PLACE. MOST COUNTRIES ENGAGED IN SUCH ACTIVITIES.

7. THE CHANCELLOR RESPONDED THAT HE UNDERSTOOD, BUT THAT IT WAS WISE NOT TO GO TOO FAR IN THIS DIRECTION. PUBLIC REACTION COULD

FORCE OTHER GOVERNMENTS TO TAKE COUNTER- ACTIONS. IF ONE LOOKED MERELY AT TRADE FIGURES, ONE CAME TO ONE SORT OF CONCLUSION ABOUT THE U. S. RELATIONSHIP WITH EUROPE, BUT IF ONE LOOKED AT THE TRADE AND INVESTMENT FIGURES TOGETHER ANOTHER CONCLUSION WAS POSSIBLE. HE WOULD HATE TO SEE A TREND DEVELOP WHICH WOULD BE UNFRIENDLY TO U. S. INVESTMENT. AS FAR AS TRADE WAS CONCERNED, THE FEDERAL REPUBLIC WAS GENERALLY CLOSE TO THE U. S. POSITION BUT FOUND IT NECESSARY TO MAKE SOME CONCESSIONS TO ITS PARTNERS, FOR EXAMPLE TO FRANCE IN THE AGRICULTURAL FIELD. THIS WAS THE NECESSARY PRICE FOR BUILDING A EUROPEAN COMMUNITY. AS ONE OF HIS PEOPLE HAD SAID IN THE BUNDESTAG, THERE WAS NO SENSE IN HITTING THE U. S. WHERE ITS ECONOMIC PRODUCTIVITY WAS STRONGEST, NAMELY THE AGRICULTURE AREA. BUT REALISTICALLY, THE CHANCELLOR CONTINUED, ATTITUDES COULD NOT BE CHANGED IMMEDIATELY, SINCE IT WAS NECESSARY TO LIVE WITH FRANCE. TO TAKE ANOTHER EXAMPLE, THAT OF REVERSE PREFERENCES, HE HOPED IT WOULD BE POSSIBLE TO GET RID OF THEM. THERE WAS AN IMPORTANT POLITICAL ELEMENT IN THE EUROPEAN RELATIONSHIP WITH THE MAGHREB, HOWEVER, AND HE DID NOT BELIEVE THAT PREFERENCES FOR THESE COUNTRIES HURT U. S. INTERESTS VERY MUCH. IT WAS ALSO CLEAR, HOWEVER, THAT THESE CLOSE LINKS COULD BE MAINTAINED WITHOUT REVERSE PREFERENCES. IF HE COULD GIVE ANY ADVICE, IT WOULD BE TO ACCEPT THE POSITIVE ASPECTS OF THESE RELATIONSHIPS WHILE THE COMMUNITY WAS TRYING TO MOVE AHEAD IN THE DIRECTION

SECRET

SECRET

PAGE 05 STATE 050189

OF MORE FREEDOM OF TRADE.

8. THE CHANCELLOR SAID POLITICAL DIFFICULTIES WERE SOMETIMES ALSO EXPERIENCED IN THE U. S. AND HE COULD UNDERSTAND, FOR EXAMPLE, WHY THE U. S. GOVERNMENT HAD BEEN UNABLE TO OBTAIN AUTHORITY FROM THE CONGRESS ON AMERICAN SELLING PRICE DESPITE COMMITMENTS MADE DURING THE KENNEDY ROUND. SOMETIME THE SAME KIND OF PROBLEMS AROSE IN THE COMMUNITY.

9. SECRETARY SHULTZ COMMENTED THAT THE PRESIDENT WILL BE ASKING FOR NEGOTIATING AUTHORITY ON NON- TARIFF BARRIERS. WE HOPED TO DEVELOP A WAY OF PROCEEDING UNDER WHICH THE PRESIDENT COULD AGREE TO MUTUAL REDUCTIONS, THEN NOTIFY CONGRESS OF THIS INTENTION AND SEND THE PROPOSAL FORWARD WHICH, AFTER A PERIOD OF SAY THREE TO SIX MONTHS, WOULD COME INTO EFFECT UNLESS VETOED BY ONE HOUSE OF CONGRESS. IT WAS SOMETIMES EASIER FOR PARLIAMENTS TO DO NOTHING THAN TO VOTE AFFIRMATIVELY.

10. REFERRING TO THE CHANCELLOR'S REMARK ON INVESTMENT, SECRETARY SHULTZ NOTED THAT THERE WAS A MISUNDERSTOOD POINT ABOUT THE FLOW OF LONG- TERM CAPITAL. THERE HAD BEEN A PERIOD OF NET FLOW FROM THE U. S. TO EUROPE, BUT SINCE 1968 THERE HAD ACTUALLY BEEN A NET FLOW FROM EUROPE TO THE U. S. THIS WAS LESS CONSPICUOUS SINCE IT WAS MOSTLY IN THE FORM OF PORTFOLIO INVESTMENT, WHEREAS THAT OF THE U. S. TO EUROPE WAS MAINLY DIRECT INVESTMENT. WE NEED TO

DO MORE IN THE U. S. TO INVITE AND TO WELCOME FOREIGN CAPITAL.

11. THE CHANCELLOR COMMENTED THAT IT WOULD BE HELPFUL IF WE COULD GET SOME AGREED STATISTICS ON TRADE AND CAPITAL FLOW. HE REFERRED TO THE PROBLEM THE U. S. HAD BEEN HAVING WITH CANADA IN THIS RESPECT. SECRETARY SHULTZ SAID WE HAD BEEN MAKING MUCH EFFORT IN THIS CONNECTION BUT HAD NOT YET REACHED COMPLETE AGREEMENT WITH THE CANADIANS. STATE SECRETARY POEHL SAID THAT THE GERMANS WERE TRYING TO PERFECT THEIR TRADE FIGURES. HE AGREED WITH SECRETARY SHULTZ THAT THERE HAD BEEN LARGE FLOWS OF CAPITAL FROM GERMANY, PARTICULARLY IN 1969 AND IN THE SECOND HALF OF 1972, WHEREAS THE INFLOW HAD BEEN LARGELY THAT OF SHORT- TERM CAPITAL. SECRETARY SHULTZ COMMENTED THAT WE ALL HAD DIFFICULTY WITH SHORT-
SECRET

SECRET

PAGE 06 STATE 050189

TERM CAPITAL FLOWS. MR. POEHL SAID THERE WAS SOMETHING WRONG WHEN THE RICHEST COUNTRY IN THE WORLD HAD TO IMPORT CAPITAL. SECRETARY SHULTZ OBSERVED THAT WE HAD A NET OUTFLOW TO THE WORLD AS A WHOLE BUT NOT TO EUROPE. POEHL ASKED WHETHER IT WOULD NOT BE POSSIBLE TO MAKE IT MORE INVITING TO INVEST IN THE U. S. AS A CONTRIBUTION TO THE STABILITY OF THE SYSTEM. HE FELT THAT SUCH INCENTIVES WOULD BE BETTER THAN CONTROLS OVER CAPITAL OUTFLOW. SECRETARY SHULTZ SAID WE HAD THOUGHT OF SOME INCENTIVES SUCH AS TAX CHANGES AND BETTER ACCESS TO SPECIFIC WAYS OF OBTAINING FUNDS.

12. THE DISCUSSION THAN SHIFTED TO THE IMPORTANCE OF AGRICULTURE IN THE U. S. AS THE MOST IMPORTANT REMAINING PRESSURE GROUP GENERALLY IN FAVOR OF A LIBERAL TRADE POLICY. SECRETARY SHULTZ NOTED THAT THE AGRICULTURAL PROBLEM SEEMED TO BE DEEPLY EMBEDDED IN POLITICS IN MOST COUNTRIES. THE CHANCELLOR COMMENTED THAT TWO YEARS AGO HIS GOVERNMENT HAD BEEN HAVING GREAT TROUBLES WITH THE FARMERS. NOW THE SITUATION WAS SOMEWHAT IMPROVED SINCE INCOMES HAD GONE UP. HE REALLY DID NOT KNOW WHAT TO DO IN ORDER TO ACHIEVE AGRICULTURAL LIBERALIZATION ALTHOUGH HE HOPED THAT THE BRITISH PRESSURES WOULD MOVE THE COMMUNITY IN THIS DIRECTION, BUT HE WAS PERSONALLY NOT TOO OPTIMISTIC. IT WAS MORE THAN A PROBLEM OF STATISTICS. IT WAS ESSENTIALLY ONE OF POLITICAL PSYCHOLOGY.

13. THE CHANCELLOR ASKED SECRETARY SHULTZ' IMPRESSIONS OF BREZHNEV DURING HIS RECENT VISIT TO MOSCOW. SECRETARY SHULTZ SAID HE HAD COME ACROSS AS A STRONG AND VIGOROUS PERSON WHO SEEMED TO WANT TO COOPERATE AS MUCH AS POSSIBLE IN ESTABLISHING A GOOD WORKING RELATIONSHIP BETWEEN THE U. S. AND THE SOVIET UNION. THE CHANCELLOR SAID HE HAD BEEN SURPRISED TO OBSERVE THE CHANGE IN BREZHNEV BETWEEN HIS FIRST AND SECOND MEETINGS WITH HIM. ON THE LATTER OCCASION HE HAD SEEMED MUCH MORE RELAXED, SELF- ASSURED AND INDEPENDENT OF PREPARED BRIEFING MATERIALS. HILLENBRAND UNQUOTE ROGERS

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